

THE IMPORTANCE OF SAVING

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This article is prepared in response to the theme: Save and Invest Today ... Enjoy Tomorrow. One important reason for saving is to invest so that the savings can earn income in the future. Without savings, you are unlikely to obtain many of the really important things you want to improve your living standard. This article focuses on saving.

Saving with a Purpose

Most people have some definite goals in life. Regardless of the kind of goals that you may set for yourself and your family, money is usually a key factor in achieving them. Most people have to set aside a little at a time from their income in order to accumulate enough to realize their goals.

The Power of Compound Interest

It is mainly through compound interest that your savings will grow and through which your money will work for you. Many people are able to enjoy a comfortable standard of living even after they retire. Although they no longer work, their money continues to work for them, earning interest year after year.

If you deposit \$5,000.00 in a savings account that pays interest at the rate of 5% twice a year, after ten years, your \$5,000.00 will grow to \$8,193.08. If you start saving \$200 a month now, and if the interest is computed semi-annually at 2.5% a year, you would have almost \$63,000 in 20 years.

Saving Vehicles

You need a place to put your monthly saving until a sufficient amount accumulates to enable you to invest in bonds, stocks, real estate, or in some other form of permanent investment. Here are some vehicles that may be available to you.

Commercial Banks

Some banks require notice before you can withdraw funds from a savings account, especially when the withdrawal is substantial.

Savings Banks

Funds deposited in savings accounts on savings banks earn interest. Like commercial banks, savings banks also accept time deposits in addition to regular savings deposits.

Savings and Loan Associations

Shares and deposits in these institutions earn income generally at a slightly higher rate of interest than that on a regular savings account in a commercial bank or a savings bank.

Government Savings Bonds

These are relatively good savings vehicles. Although the interest rate may not be high, the bonds are quite safe.

Credit Unions

These operate both as savings and as lending institutions for their members who receive dividends representing interest earned on the funds deposited.

Endowment Insurance

Many people use endowment policies as a combination of protection for the family while saving for some specific purpose.

Annuities

Life insurance annuities are another means of saving. If you have a certain sum of money, such as \$5,000.00, you can use it to purchase a life insurance annuity, which at a stipulated age will be paid back to you in monthly payments with interest. Many people include an annuity as a part of their retirement plan.

